

VZCZCXRO2932

RR RUEHAO RUEHCD RUEHGA RUEHGD RUEHGR RUEHHA RUEHHO RUEHMC RUEHNG
RUEHNL RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHBR #0786/01 1141640
ZNR UUUUU ZZH
R 241640Z APR 06
FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC 5184
INFO RUEHSO/AMCONSUL SAO PAULO 6802
RUEHRG/AMCONSUL RECIFE 4642
RUEHRI/AMCONSUL RIO DE JANEIRO 1922
RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RUEHRB/AMEMBASSY RABAT 0028
RUEHEG/AMEMBASSY CAIRO 0056
RUEHTV/AMEMBASSY TEL AVIV 0127
RUEHSA/AMEMBASSY PRETORIA 0568
RUEHBS/AMEMBASSY BRUSSELS 0100
RUEHNE/AMEMBASSY NEW DELHI 0211
RUEHRH/AMEMBASSY RIYADH 0029
RUEHAD/AMEMBASSY ABU DHABI 0007
RUEHDO/AMEMBASSY DOHA 0001
RUEHKU/AMEMBASSY KUWAIT 0007
RUEHMS/AMEMBASSY MUSCAT 0007
RUEHUL/AMEMBASSY SEOUL 0130
RHEHNSC/NSC WASHDC
RUCPDO/USDOC WASHDC
RUEHRC/USDA FAS WASHDC

UNCLAS SECTION 01 OF 05 BRASILIA 000786

SIPDIS

DEPT FOR WHA/BSC, EB/TPP
DEPT PLEASE PASS TO USTR FOR MSULLIVAN, KLEZNY
DEPT PLEASE PASS TO USAID FOR LAC/AA
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC FOR 3134/ITA/USFCS/OIO/WH/RD/DANDERSON/SHUPKA
USDA FOR JBPENN, FFAS
NSC FOR SCRININ

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ETRD](#) [KIPR](#) [ECON](#) [BR](#)

SUBJECT: BRAZIL/MERCOSUL BILATERAL TRADE NEGOTIATING PRIORITIES

REFS: (A) 05 Brasilia 3052, B) Pretoria 1331

BRASILIA 00000786 001.2 OF 005

11. SENSITIVE BUT UNCLASSIFIED

12. (U) Introduction and Summary. This cable is intended to provide a brief overview of Mercosul's bilateral trade negotiations. The following information is based primarily on Econoff's conversations with Orlando Leite Ribeiro of the Foreign Ministry's Regional Integration Division (who covers negotiations with countries within Latin America), and Ernesto Henrique Araujo, head of the Division of European Union and Extra-Regional Trade Negotiations (who covers all other bilateral and inter-regional negotiations).

13. (U) In line with its foreign policy tilt toward developing countries and desire to reduce reliance on major trading partners, Brazil's, and by extension Mercosul's, trade negotiating priorities for 2006 continue to reflect an interest in nurturing non-traditional export markets of geopolitical value. Within the western hemisphere, Mercosul plans to concentrate its efforts on completing an FTA with Cuba, while FTAs with Israel and countries of the Gulf Cooperation Council are also on tap for this year, according to Brazilian officials. The GoB continues to express optimism that Mercosul-EU trade talks can be wrapped up before conclusion of the WTO Doha Development Agenda (DDA) negotiations, despite EU rhetoric and action that suggests otherwise. Unless noted, the Mercosul trade negotiations discussed below cover only trade in goods. End Introduction and Summary.

CLOSE TO HOME - Trade Integration Stalls in Western Hemisphere

¶4. (SBU) After Mercosul's push in 2004 to complete FTAs with countries of the Andean Community, further regional trade integration has slowed. Mercosul's FTAs with Colombia, Ecuador, and Venezuela came into force in February 2005 and with Peru in December 2005, adding to existing agreements with Bolivia and Chile, but no new trade agreements have since been concluded with regional trade partners.

¶5. (SBU) Cuba: Started in 2005, Ribeiro identified the conclusion of FTA talks with Cuba as a Mercosul and Brazilian priority for ¶2006. Work to consolidate existing trade agreements between Cuba and the individual Mercosul members is already complete, paving the way for discussions on how to expand them into a full-fledged, goods-only, free-trade agreement with the bloc. Although an FTA is a prerequisite for associate membership in Mercosul, Ribeiro voiced doubts that negotiations would lead to this for Cuba, suggesting that associate membership only makes sense for countries in close geographic proximity since associate member discussions focus on border and physical integration issues.

¶6. (U) Chile: Mercosul launched discussions with Chile in 2005 intended to expand the 97 percent product coverage of their existing goods-only FTA (Complementary Economic Agreement [ACE] 35) and to add services. Mercosul hopes to have a draft services agreement by June and to conclude talks by year-end. [Note. Brazil's interest in expanding Mercosul's existing ACE with associate member Chile is in part driven by criticism from Brazil's private sector, led by former Ambassador to the U.S. Rubens Barbosa, over erosion of Brazil's trade preferences resulting from U.S. FTAs with Chile and other Latin American partners.]

¶7. (U) Bolivia: Mercosul is looking to expand the product coverage of its FTA with Bolivia (ACE 36) up from the current 90 percent. Although President Lula has publicly made overtures to Bolivia to

BRASILIA 00000786 002.2 OF 005

upgrade from associate to full membership with the bloc, no formal invitation had been extended to Bolivia as of mid-April as Mercosul continued to deliberate on the issue.

¶8. (SBU) Venezuela: During the Mercosul Summit in December 2005, Ministers set a one year deadline for negotiating a program of accession to full membership status for Venezuela (ref A). According to Ribeiro, negotiations with Venezuela on establishing a program for accelerated tariff reductions are tough and slow-going. Ribeiro described Venezuelan trade officials as "not very happy," given that the number of Venezuelan tariff lines already consistent with Mercosul's Common External Tariff number only in the single digits. Ribeiro noted that the accession program would include a timeline for Venezuela's compliance, which could extend to many years.

¶9. (U) Peru, Colombia, Ecuador: Prompted by concern over dislocation of Brazilian suppliers in the Andean market, according to press reports, Foreign Minister Amorim has already informally alerted these countries that Mercosul intends to invoke a provision of the bloc's Economic Complementary Agreements (ACE 58 and 59) negotiated under ALADI rules, which would obligate these countries to extend to Mercosul the same concessions provided to the United States through bilateral FTAs. After eliminating import tariffs for US products, the FTA partner would reportedly have 90 days in which to negotiate the elimination of barriers to Mercosul products. Reports suggest that the economic impact of such a move could be significant given the asymmetric nature of the ACEs, which currently provide for a very gradual reduction in Andean tariffs for Mercosul products.

¶10. (SBU) Mexico: Despite plans at the beginning of 2005 to negotiate a comprehensive FTA (goods only) between the bloc and Mexico, Ribeiro said Mexico chose not to move forward. Instead, Mexico has repeatedly pressed Mercosul to grant it associate membership without first having the necessary FTA in place. The GoM argued that its auto agreement with the bloc, its FTA with Uruguay and its partial trade agreements with the other three Mercosul partners should be sufficient. According to Ribeiro, Mexico again

during the December 2005 Mercosul Summit made the pitch for granting it associate membership without a comprehensive FTA, but was rebuffed once more. Speculating that Mexico might have concluded that an FTA would worsen its trade deficit with the bloc, Rebeiro stated that the GoB is unwilling to make an exception for Mexico that would set a bad precedent for future negotiations.

¶11. (SBU) CARICOM: Free-trade negotiations continue with countries of CARICOM, but without urgency. Although Ribeiro characterized the negotiations as "not complicated" and predicted a substantially asymmetric agreement in CARICOM's favor, there is no deadline for talks and CARICOM is setting the pace.

¶12. (SBU) SICA: Negotiations with the System for Central American Integration (SICA) countries are on-hold. Ribeiro claimed that despite having signed a work program for negotiations with SICA foreign ministers in late 2004, SICA trade ministers had different priorities, such as implementing the CAFTA-DR agreement with the US and more recently preparing to launch free-trade talks with the EU.

¶13. (SBU) Dominican Republic and Panama: There are separate work programs for FTA talks with the Dominican Republic and Panama, which are proceeding at a measured pace, with usually two meetings scheduled per year.

LOOKING ELSEWHERE FOR THE POLITICAL/TRADE DEAL

BRASILIA 00000786 003.2 OF 005

¶14. (U) Outside the region, Mercosul is attempting to keep the Mercosul-EU negotiations alive, deepen its strategic trade relationship with India and the Southern African Customs Union (SACU), and make new trade inroads in the Middle East through negotiations with Israel and countries of the Gulf Cooperation Council.

¶15. (SBU) European Union: Like one of Brazil's popular telenovelas, the saga of Mercosul-EU FTA negotiations goes on. The GoB once again set itself up for a fall when on the eve of talks in Brussels in early March, it announced with much fanfare that the negotiations had "restarted," with both sides expected to bring fresh proposals to the table. Less than a week later, press accounts talked of the door being slammed (again) in Mercosul's face. The negative assessment of progress made during the Brussels meeting was reinforced by the Foreign Ministry's IPR Chief, who admitted to Econoff that the EU had brought IPR negotiations back to square one by reneging on its offer to relent on its Geographical Indications demands and negotiate something along the line of the US-EU Wine Agreement.

¶16. (SBU) Extra-Regional Negotiations Chief Ernesto Araujo gave a more positive spin to the meeting. He downplayed the notion that the meeting was convened to "restart" the negotiations, pointing out that Ministers had agreed to the meeting, and its new format, late last year. By "new format," Araujo was referring to the decision to focus discussion on three major negotiation components -- services, agriculture, and flexibilities (asymmetric treatment for Mercosul). The idea, according to Araujo, was to address these most difficult issues by crafting a proposal in the form of a comprehensive package of trade-offs, rather than as a one-sided offer of concessions, which has been the traditional approach.

¶17. (SBU) While the EU did not offer any new proposals, Araujo was upbeat about the prospect that Mercosul's own "packaged" offer, which identifies the concessions it seeks in agriculture for the concessions it is willing to make in services, might move the negotiations forward. Furthermore, Araujo claimed that as a result of bilateral meetings in late March, Foreign Minister Amorim was able to move EU Trade Commissioner Mandelson off his well-publicized position that the Mercosul-EU negotiations could not conclude until after the WTO Doha negotiations. [Note. This is in contrast to comments made to Econoff in early April by EU Trade Officer-Brasilia that the bilateral negotiations with Mercosul are not an EU priority and will not be completed ahead of Doha.]

¶18. (SBU) India and SACU: As noted in previous reporting (ref B),

neither the Mercosul-SACU nor Mercosul-India partial, trade preference agreements signed in December 2004 and March 2005, respectively, have entered into force. However, that has not held back Mercosul in seeking to upgrade or deepen the agreements, according to Araujo. Laying out the bigger picture, Araujo explained that Mercosul will work this year with SACU (principally South Africa) and India to expand their initial, partial agreements, while a separate working group will explore possible negotiation of a trilateral free-trade agreement. While there is a lot of enthusiasm for the idea of a trilateral FTA, Araujo cautioned that a final decision will depend on what the working group produces by the end of the year. Araujo denied press reports that the potential trilateral agreement would include IPR provisions, stating that the GoB is not interested in negotiating TRIPS plus provisions with anyone. Likewise, on services and investment, he said talks in these areas might focus more on facilitation than on new market

BRASILIA 00000786 004.2 OF 005

access commitments; he gave examples of allowing code-sharing as a way of affecting air services without a GATS type negotiation.

¶19. (SBU) On the bilateral side, talks are underway with SACU to add a couple thousand, more commercially relevant products to the partial agreement by mid-year. Mercosul also hopes to conclude a separate agreement on the automotive sector in the same timeframe. Araujo said talks with India are proving more difficult due to India's sensitivity in the agricultural sector, but work is continuing to expand the initial agreement. In all these discussions, Araujo declined to provide product specific details.

¶20. (SBU) Israel: Araujo said Mercosul negotiations on a goods-only FTA with Israel should wrap up by June. Israel was not interested in including services or investment components in the agreement, according to Araujo.

¶21. (SBU) Gulf Cooperation Council (CCG): Building on momentum created during the South American-Arab Summit in Brasilia in March 2005, Mercosul launched FTA negotiations covering goods, services and investment with countries of the Gulf Cooperation Council (Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and United Arab Emirates) last November. Araujo predicted a relatively straightforward negotiation given the complementary nature of the Mercosul and GCC economies and, in particular, the lack of agricultural sensitivities in the GCC countries. Negotiations are expected to conclude by year-end.

¶22. (SBU) Egypt and Morocco: Araujo described the separate partial, trade preference talks with these two countries as going slowly, with neither side pressing to move quickly.

¶23. (U) South Korea: A feasibility study on potential free-trade negotiations is due to be completed by year-end.

COMMENT

¶24. (SBU) GoB officials point to increased trade diversification in 2005 as vindication of the GoB's policy of prioritizing trade within the region and with strategic, non-traditional trade partners. In 2005, Brazilian exports to ALADI (Latin American Integration Association) members, including its Mercosul partners, grew by 29.1% to reach \$25.4 billion, or 21.5% of Brazil's total exports, and exceeding exports to the United States (\$22.5 billion). Export growth to Brazil's strategic non-traditional markets, such as South Africa (32.2%), India (74.5%), and the countries of the Gulf Cooperation Council (31.6%) also easily outstripped the overall export growth rate of 22.6%, even without new trade agreements yet being in-force. When pressed, however, trade officials concede that these impressive growth rates are calculated off extremely low starting points.

¶25. (SBU) For instance, in 2005, even with substantial growth, only 1.2% of Brazil's exports were destined for South Africa; 1.0% for India and 2.1% for the Gulf Cooperation Council countries. Exports to Israel and Cuba each received only about 0.2% of Brazil's exports last year. While exports to Brazil's main traditional markets of the EU and United States showed less robust growth of 9.7% and 12.1% respectively in 2005, they still absorbed 22.4% and 19.2% of

Brazil's exports.

¶26. (SBU) While no one is arguing that increasing exports to non-traditional markets is a negative development, current trade figures will not be sufficient to quell private sector criticism that large potential gains with Brazil's more economically

BRASILIA 00000786 005.2 OF 005

significant trading partners are being sacrificed as a result of current GoB priorities. Nonetheless, given the entrenched perspective on this issue within President Lula's administration, we only foresee a change in GoB trade priorities and policy should presidential elections in October result in a change of government.

MINIMIZE CONSIDERED.

LINEHAN